



DEPARTMENT OF GENERAL SERVICES' BUREAU OF REAL ESTATE SERVICES

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2019

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the operating and capital leases administered by the Department of General Services' Bureau of Real Estate Services for the fiscal year ended June 30, 2019, found:

- proper recording and reporting of all transactions, in all material respects, in Real Estate Service's real estate management system, the Commonwealth's lease accounting system, and the Department of Accounts' Attachment 11;
- no matters involving internal control and its operation necessary to bring to management's attention;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to audit findings reported in the prior year.

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AGENCY HIGHLIGHTS

The Bureau of Real Estate Services (Real Estate Services) is the Commonwealth of Virginia's provider of real estate services to state agencies. Some of Real Estate Services' responsibilities include:

- management of the Commonwealth's real estate portfolio;
- comprehensive transactional support for negotiating, leasing, and acquiring space;
- transactional documentation guidance; and
- real estate information database maintenance and enhancement.

Real Estate Services is a bureau of the Department of General Services (General Services). Real Estate Services leases over 4.47 million square feet of rental space. In fiscal year 2019, Real Estate Services managed eight master capital leases and 503 master operating leases. Real Estate Services makes all lease payments to the lessor on behalf of the state agencies. In fiscal year 2019, Real Estate Services paid \$62.5 million in lease payments and had \$357.7 million in future obligations.

Lease Payments and Future Obligations

Type of Lease	Fiscal Year 2019 Payments	Future Obligations (2020-2049)
Operating	\$60,498,127	\$322,347,685
Capital	2,008,245	35,350,319

Source: Real Estate Services' real estate management system and Commonwealth's lease accounting system

In 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. This accounting standard becomes effective for fiscal year 2021 and significantly changes the way governments account for leases. Under the new model, operating and capital leases no longer exist. All leases will be reported as financing transactions, which results in recording an intangible asset and a liability for every lease except short term leases (less than 12 months). GASB Statement No. 87 requires that existing leases be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation, not the inception of the lease. Real Estate Services will need to gather additional data, assess all of its leases, and implement changes to its real estate management system no later than July 1, 2020, to successfully implement the new standard for fiscal year 2021. We are monitoring Real Estate Services implementation of GASB Statement No. 87 and will issue status reports as needed.

General Services' Office of Fiscal Services (Fiscal Services) maintains capital leases in the Commonwealth's lease accounting system, and Real Estate Services maintains operating leases in its real estate management system. Real Estate Services provides Fiscal Services with financial reporting data for operating leases from Real Estate Services' real estate management system, which Fiscal Services reports to the Department of Accounts, along with the capital lease information from the Commonwealth's lease accounting system, in support of the Commonwealth's Comprehensive Annual Financial Report.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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September 26, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of General Services' Bureau of Real Estate Services** for the year ended June 30, 2019. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Comprehensive Annual Financial Report. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objective was to evaluate the accuracy of Real Estate Services' financial transactions related to operating and capital leases that they administer in support of the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2019. In support of this objective, we evaluated the accuracy of recorded financial transactions in Real Estate Services' real estate management system, the Commonwealth's lease accounting system, and Department of Accounts' Attachment 11; reviewed the adequacy of Real Estate Services' internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Real Estate Services' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations, contracts and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Capital Leases

Operating Leases

Rent, insurance, and other related charges

Information system security over Real Estate Services' real estate management system

System access controls over Real Estate Services' real estate management system

We performed audit tests to determine whether Real Estate Services' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Real Estate Services' operations. We tested details of lease classification and performed analytical procedures.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the section "Audit Objectives" and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Conclusions

We found that Real Estate Services properly stated, in all material respects, the amounts recorded and reported in the Real Estate Services' real estate management system, the Commonwealth's lease accounting system, and Department of Accounts' Attachment 11. The financial information presented in this report came directly from the Commonwealth's lease accounting system and Real Estate Services' real estate management system

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations,

contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Real Estate Services has taken adequate corrective action with respect to audit findings reported in the prior year.

The results of our consideration of the Commonwealth's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contract and grant agreements, and other matters related to the audit of the Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2019, will be included in the Commonwealth of Virginia Single Audit Report, which will be issued in February 2020.

Report Distribution

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DBC/clj

DEPARTMENT OF GENERAL SERVICES
BUREAU OF REAL ESTATE SERVICES

As of June 30, 2019

Joseph Damico
Director, Department of General Services

Sandra Gill
Deputy Director, Department of General Services

Bryan Wagner
Controller, Department of General Services

Holly Eve
Director, Division of Real Estate and Facilities Management

Karl Saimre
Director, Bureau of Real Estate Services